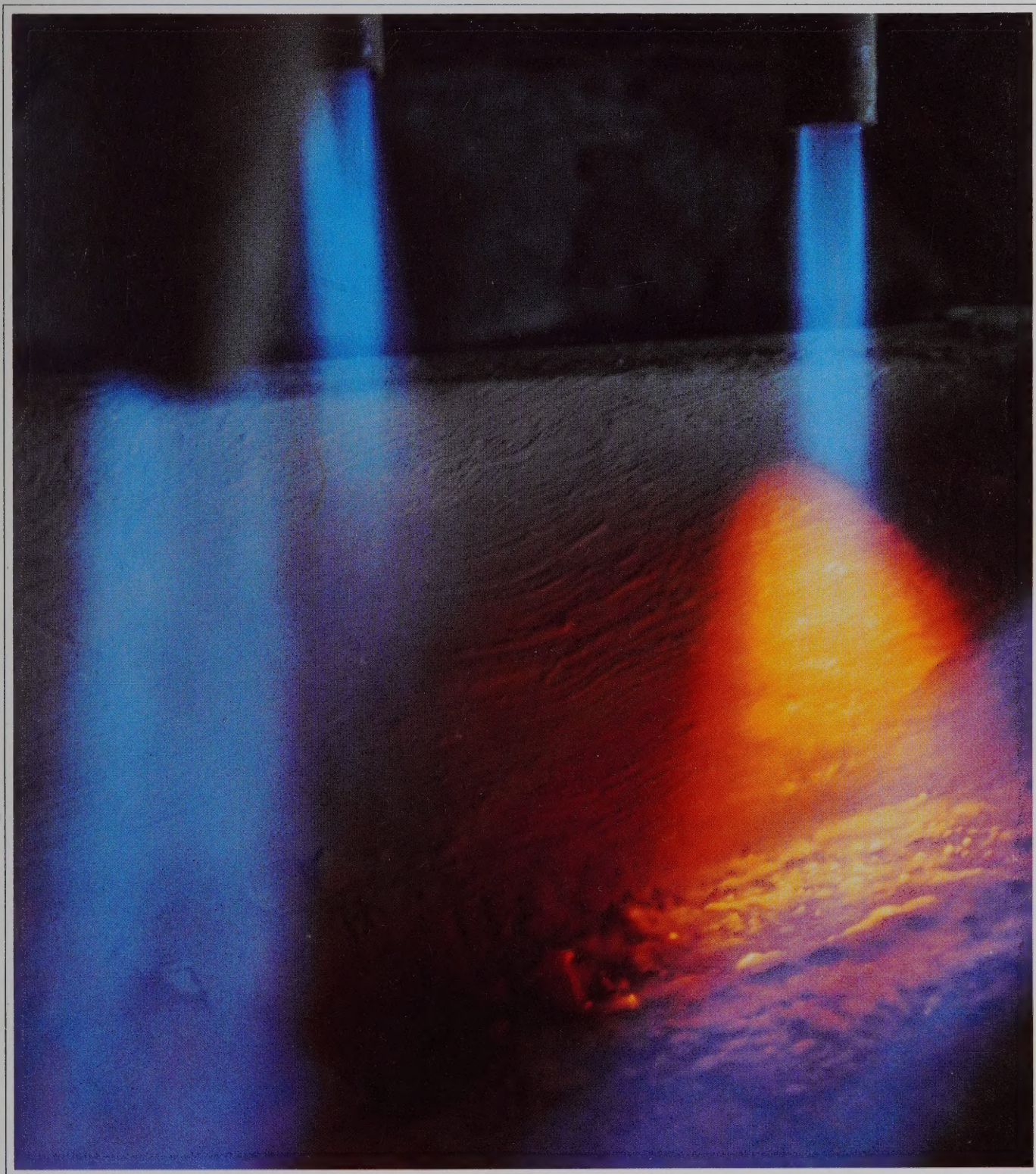


AR12

Inland Natural Gas Co. Ltd., 1979 Annual Report



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COVER is a close-up photo of natural gas burners being used to preheat a molten copper container at Afton Mines Ltd. (N.P.L.) Kamloops.

ANNUAL MEETING

11:00 a.m. (Vancouver time)
October 25, 1979, Four Seasons
Hotel, Vancouver, B.C.

HIGHLIGHTS

EARNINGS AND DIVIDENDS

	1979	1978
Net Income	\$ 5,715,308	\$ 4,940,040
Common Shares Outstanding	2,822,122	2,822,122
Earnings per Common Share	\$ 1.53	\$ 1.25
Dividends per Common Share	\$.825	\$.80
Dividends per Preference Share	\$ 1.00	\$ 1.00
Dividends per Second Preference Share	\$ 2.50	\$ 2.50

REVENUES AND CUSTOMERS

Total Revenue	\$ 86,591,521	\$ 70,736,316
Total Gas Sales Revenue	\$ 85,987,424	\$ 69,401,952
Total Gas Sales Volume (MMcf)	49,551	46,362
Number of Customers	76,848	74,252
Degree Days (base 18°C)	4,524	4,191

PROPERTY, PLANT AND EQUIPMENT

Additions for the Year	\$ 5,540,517	\$ 5,904,741
Total Investment	\$123,314,351	\$118,116,169

ABOUT THE COMPANY

INLAND NATURAL GAS CO. LTD. is an investor owned utility which transmits and distributes natural gas through 900 miles of transmission lines and 2,500 miles of distribution facilities to 77,000 customers. Its service area stretches over 1,000 miles from north to south in the interior of British Columbia providing service to some 50 communities with a population of approximately half a million people. It is a high growth area and population forecasts indicate that by the year 2000 the population will have risen to approximately one million people. The Company has an abundant gas supply at reasonable prices and is able to market the gas, in most cases, at approximately half the price of other competing fuels. On July 9, 1979, the Company acquired all of the shares of Columbia Natural Gas Limited, a natural gas distribution utility serving 10,000 customers in the East Kootenay region of the Province. Since Columbia was acquired subsequent to the year end, it has been excluded from the consolidated financial statements forming part of this Report.



TO OUR SHAREHOLDERS

We are pleased to report that earnings per common share, after full provision for dividends on preference shares, rose to \$1.53 from last year's \$1.25.

In light of these increased earnings, the Directors of your Company increased the quarterly dividend on common shares from 20¢ to 22½¢ per share effective May 15, 1979, bringing the dividends paid during fiscal 1979 to 82½¢ per common share.

In last year's Annual Report to the Shareholders a concern was expressed with respect to the regulatory treatment accorded the Company in a recently completed rate hearing and the Shareholders were apprised of the Company's intention to try to improve this regulatory treatment at a further rate hearing. This rate hearing was held and completed in November, 1978 and the detailed results are set out on pages 3 and 4 of this report. In general, we would like to summarize these for you by saying that the regulatory treatment accorded the Company and reflected in the British Columbia Energy Commission's decision rendered in April, 1979, was fair and reasonable and has assisted in reversing the downward trend in earnings over the past few years.


The late 1960's and early 1970's were a period of major economic development in the area served by your Company with the attendant spectacular growth in revenue and the extension of service in our general service area. The mid 1970's were years of consolidation with somewhat slower customer growth. It was also a period of rapidly rising energy costs with generally preconceived problems in gas supply that never came to pass. We now appear to be entering into a new period of economic development in the Province which will benefit Inland through increased sales to new and expanding markets. This past year your Company aggressively promoted the conversion of homes in our service area from oil to natural gas. This highly successful program complemented an already active expansion in our residential new home market. The commercial market continues to reflect increased growth with apartment buildings and large shopping centres developing throughout our service area. The industrial market is perhaps one of the most encouraging growth areas. Pulp mill expansions have been announced by several of our major pulp mill companies and a new pulp mill has been announced by West Fraser Timber in Quesnel. The rich coal deposits in the northeastern portion of the Province also provide opportunity for significant gas load expansion in the future. In short, we can look forward with enthusiasm to substantial economic growth in the 1980's.

A major highlight subsequent to the year end was the acquisition of Columbia Natural Gas Limited, a natural gas distribution company operating in the East Kootenay area of the Province of British Columbia. This acquisition adds 10,000 customers including five major industrial accounts to Inland's existing customer base. The future for Columbia looks even more promising with potential growth in mining and forest related industries. With the addition of Columbia to the Inland family, we are now able to take advantage of the marketing potential in the entire southeastern portion of the Province.

In previous years we have outlined in some detail the favourable position your Company is in with regard to gas supply. The activity and success of the exploration and development of natural gas continues within the Province. In February of this year the National Energy Board released its findings on the supply and requirements for natural gas in Canada. In its summation on British Columbia it concluded that the total demand within the Province could be met from remaining established reserves from conventional areas until a small deficiency occurs in 1999. Further major developments in reserves in recent months in Alberta and British Columbia will obviously impact even more favourably on these projections.

Recent pronouncements by the Province of British Columbia state that as a basic cornerstone of Provincial energy policy the needs of natural gas consumers within the Province must be satisfied prior to any additional export. Westcoast Transmission Company Limited has agreed to reopen our gas sales contract and raise significantly the amount of gas which we may purchase and to also extend the term of our contract.

This past year, Mr. D.R. MacPhail, the Company's Corporate Secretary for many years, retired from Inland and we welcome as his successor, the former assistant secretary Ms. Ardelle F. Clark.



Chairman of the Board



President

Vancouver, B.C.
September 24, 1979

DIRECTORS' REPORT

REVENUE

Consolidated gross revenue for the year under review amounted to \$86,591,521, an increase of 22% over the previous year. Revenue from gas sales, most of which is derived from the parent company, rose to \$85,987,424 from \$69,401,952 last year. This gain resulted from rate increases, colder than normal weather, a buoyant economy and additional customers. The rate increases are reviewed elsewhere in this report.

In the previous year large volumes of gas were sold to Columbia Natural Gas Limited via the East Kootenay Link resulting in revenue of \$3,200,000. These sales were substantially reduced to \$1,380,000 this year due to the lengthy utilization of the East Kootenay Link for peak shaving purposes during the extremely cold winter. Inland's sales volume to its customers, exclusive of that sold to Columbia, was approximately 44,700,000 Mcf compared to 40,000,000 Mcf in the previous year. Residential and commercial sales volumes rose approximately 10% due to the addition of 2,600 new customers in the year and weather that was more than 10% colder than normal, the coldest in the Company's history. Volumes sold to industrial customers were 12% higher than last year. The major reasons for this increase were the buoyant markets for both pulp and lumber for our forest industry accounts and also, for the first time in many years, the availability of pipeline interruptible gas through much of the winter allowing substantial additional sales to large industrial customers.

Transportation revenue was only minimal during the year due to the greatly improved supply

situation of Westcoast Transmission Company Limited. It was unnecessary therefore, for Inland to transport, on Westcoast's behalf, quantities of gas from Alberta to help relieve the short-fall in supply which has existed for a number of years at the United States border.

EXPENSES

Purchase of Gas

The cost of gas purchased during the year increased substantially due, in part, to the increased volumes sold, as outlined above, and a wholesale price increase of 21¢ per Mcf which went into effect on March 1, 1978. This price increase was passed on to our customers with no resulting profit or loss to the Company. Another contributing factor to the cost of gas increase was the purchase of substantial amounts of peaking gas from Alberta and Southern Gas Co. Ltd. during the extremely cold winter months. This year the Company brought in approximately 1,800,000 Mcf during the winter, all of which was returned by the June 30 year end.

Operation and Maintenance

Costs of operation and maintenance increased to \$8,783,838 this year compared to \$6,143,352 a year ago. There were some significant reasons for this major increase. Firstly, as a result of the Company's interim rate decision in November of 1978, a new system of accounting for overheads was implemented effective December 1, 1978. This new accounting system has the effect of charging substantial amounts of overhead, which were previously capitalized, to operating and maintenance accounts. In the current year this change accounted for approximately \$1 million of the total increase in operating and maintenance expenses. (See Note 1 to Financial Statements).

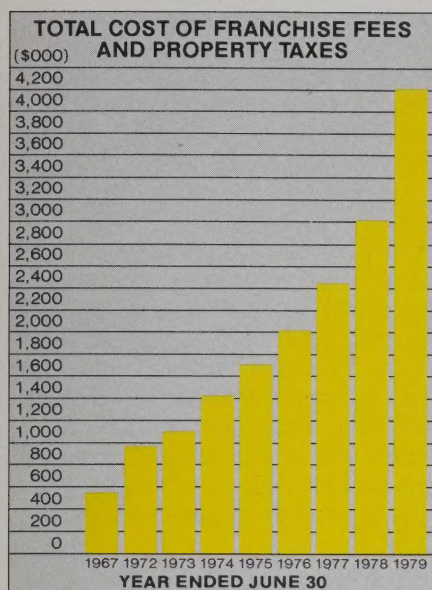
Secondly, in order to reduce a substantial unfunded liability with respect to the Company's pension plan for salaried employees arising from the triennial actuarial report as at January 1, 1979, additional pension payments approximating \$400,000 were made in the current fiscal year. (See Note 5 to Financial Statements).

Other contributing factors to the increase in operation and maintenance expenses were the expenditure of \$150,000 on special sales promotion and advertising to promote conversion from oil furnaces to natural gas fired equipment and also the higher cost of operating the transmission and distribution systems due to the extremely long, cold winter.

The cost of salaries, wages and related employee benefits was considerably higher this year caused, in part, by the additional pension payment mentioned above and, also by the increase in the average work force from 262 employees last year to 278 employees this year. 75% of Company personnel are Union members who are covered by two separate collective agreements; one with the Office and Technical Employees' Union and the other with the International Brotherhood of Electrical Workers. A recent two year Agreement has been signed with the Office and Technical Employees' Union which expires on March 31, 1981. The present Agreement with the International Brotherhood of Electrical Workers expired on September 11, 1979 and negotiations have commenced toward a new contract.

Property, Franchise and Other Taxes

Your Company continues to contribute substantial tax revenue to the municipalities and the Province. During the current year property taxes increased by 45% to \$2,027,412 compared to



\$1,400,184 last year. This major increase resulted primarily from changes in provincial statutes with respect to the assessment of pipelines whereby the statutory provision for the use of a throughput factor has been eliminated.

Franchise fees amounted to \$2,177,975 this year which represents an increase of 36% over the previous year. The franchise fees are calculated at 3% of gross revenue from sale of natural gas within municipal boundaries. The majority of the increase in franchise fees is directly related to the increase in gas sales revenue which has been explained elsewhere in this report. In addition, the revenue from gas sales to a large industrial customer, previously excluded from the calculation, became subject to franchise fees in December, 1978.

In last year's Annual Report reference was made to Orders issued by the British Columbia Energy Commission that franchise fees be phased out over a five year period. The municipalities successfully appealed these Orders and as a result of the Court of Appeal's decision the Commission issued Orders in February, 1979 rescinding its original Order to phase out the franchise fees.

Depreciation

The Company provides for depreciation on a straight-line basis on plant in service at the beginning of the year at rates prescribed by the British Columbia Energy Commission for each class of plant. The application of these rates for the current year is equivalent to a composite rate of 2.34%. Rates used for major plant classifications are:

Transmission and distribution mains	2%
Meters, compressors, buildings, measuring and regulating equipment	3%
General equipment	5% to 15%

Depreciation not provided by the Company during the period 1958 to 1963, is being amortized and recovered concurrently in rates charged to customers over five years to 1982 in annual amounts of \$287,551, as directed by the Commission.

Interest and Expense on Long-Term Debt

Interest and expense on long-term debt amounted to \$4,815,380 compared to \$4,473,709 in the previous year. The increased expense resulted from the net effect of a \$12 million issue of 9% debentures in November of 1977 and the retirement of various debt securities through the operation of sinking funds.

Other Interest

The cost of short-term borrowings by way of bank loans and the Company's own commercial paper was \$246,405, down from \$479,525 last year. The decrease in short-term interest expense was due to the lower level of short-term borrowings resulting, in part, from an increase in internal cash generation during the year.

Income Taxes

	1979	1978
Inland		
Current	\$4,050,417	\$3,092,259
Deferred	1,593,330	1,829,733
	5,643,747	4,921,992
Subsidiaries	60,001	28,121
	\$5,703,748	\$4,950,113

Current income taxes increased by \$958,158 over last year primarily because of higher taxable income caused by additional sales, referred to previously, and rate increases during the current year. In addition, the accounting change with respect to the allocation of overhead costs to construction effective December 1, 1978 has resulted in an increase in current taxes and a decrease in deferred taxes.

RATE HEARINGS

Inland's second rate hearing concluded on November 30, 1978 and further interim rate relief on a non-refundable basis was granted. The British Columbia Energy Commission's decision was received by the Company on March 12, 1979 which allowed for further rate relief effective April 1, 1979. This concluded approximately three years of preparation and involvement in the Company's two rate hearings before its Regulatory Commission.

In summing up the Company's first two rate hearings it is evident that a great deal has been accomplished. The change from flow-through to normalization of income taxes, granting of additional depreciation and the adoption of a new method of accounting for overhead costs has and will continue to have a very favourable impact on internal cash generation. Arising out of the most recent decision

was the granting of a more favourable treatment in the rate base of the Company's inventories, the implementation of a new method of gas measurement and the acceptance by the Commission of the use of a forward test year for measuring the Company's required return. The Company was also awarded an increase in its allowable rate of return on rate base to 10.31% and rates were set to allow a return on equity of 15.25%, a substantial increase over the 14% previously allowed. The Commission, in its decision also stated that if return on common equity should appear likely to exceed 16% on a normalized basis for a protracted period, it would consider adjustments.

Your Company was an active intervenor in the Westcoast Transmission rate hearings before the National Energy Board. These hearings have now been concluded and we are pleased to report that a position supported by Inland has been adopted by the Board. That position was placed before the Board by way of a memorandum from the Provincial Minister of Mines, Energy & Petroleum Resources stating that the Province's position was that the price of gas to be charged by Westcoast to its B.C. utility customers should be controlled by the Province. The National Energy Board, in response to a motion by Inland, adopted this policy and stated that for the present time it would not, as a result of the Westcoast hearings, amend the prices paid by the B.C. utilities to Westcoast. The matter of whether or not there will be further wholesale price increases and the extent of these, if any, now rests with the Province.

FINANCING

There were no financings carried out during the year under review and none are contemplated during the coming year. The

Company has established lines of credit with its corporate bankers which enable it to utilize either bank loans or its own commercial paper. These funds, along with internally generated funds, should be sufficient to provide the necessary bridge financing until a long-term debt or equity issue is necessary.

CAPITAL EXPENDITURES

The capital program for the year under review totalled \$6 million. The majority of the expenditures were related to the cost of installing facilities to serve approximately 2,600 new customers. This coming year we have budgeted for a \$7.5 million capital program which includes pipelines and related facilities to serve a major mining operation in the Highland Valley, a large sawmill complex north of Quesnel and a sulphur pelletizing plant near Chetwynd. One of the transmission laterals serving the City of Kamloops will be looped to increase the capacity of supply to the City. We will also be retesting a portion of our 10" transmission line in the vicinity of Rossland to upgrade this pipeline in order to take full advantage of the compressor capacity at Trail during peak winter conditions. A new combined service centre is under construction in Vernon and should be occupied by November of this year. Also included in the capital program for the coming year is the installation of facilities to serve an estimated 3,200 new customers.

MARKETING

This year your Company aggressively sought new business in all market segments. Marketing programs were readily accepted by prospective customers because of government pronouncements that natural gas was in abundant supply and should be the preferred fuel. The public is also aware of

price escalations for competing fuels. In the residential sector a spring conversion campaign resulted in over 1,100 applications for gas service from home owners previously utilizing other fuels. Most of these conversions will take place in fiscal 1980. Your Company continues to attach approximately 95% of single family dwellings constructed within reasonable reach of the Company's distribution mains. Inland wishes to maintain and even increase this market share and in this regard a Manager, Builder-Dealer Relations was appointed this year.

In the commercial sector, with the exception of some apartment developments, almost 100% of new commercial establishments adjacent to Company mains installed natural gas. The Marketing Division of your Company will be concentrating heavily during the coming year on the highly capital cost-sensitive new apartment business.

The outlook for the coming year is encouraging. Indications are for a definite upswing in residential and commercial construction and the Company will continue to actively pursue the conversion market. In the industrial sector agreements are presently being finalized which will result in natural gas replacing oil in two industrial plants. Four other industrial accounts, including two pulp mills, have announced major expansion programs which will result in increased natural gas consumption. Four other companies have stated their intention to build new plants in Inland's service area, one of which will be a 500 ton per day thermo-mechanical pulp mill. In an attempt to assist in the location of new industrial plants in the interior of British Columbia, Inland is publishing an industrial development brochure for distribution to prospective industrial customers.

SHARE DISTRIBUTION

Approximately 96% of the shareholders of Preference and Common stock of the Company are resident in Canada. The distribution of each class of shares is set out below:

	Shareholders	Shares
Preference		
Canada	2,772	798,402
U.S.A.	15	1,348
Others	2	250
	<u>2,789</u>	<u>800,000</u>
Common		
Canada	4,249	2,564,269
U.S.A.	218	64,060
Others	70	193,793
	<u>4,537</u>	<u>2,822,122</u>

WHOLLY-OWNED SUBSIDIARIES

Columbia Natural Gas serves some 10,000 customers in the East Kootenay area of British Columbia including some large resource based industrial customers. Pictured here are engineering, operational and office functions.



Columbia Natural Gas Limited

On July 9, 1979 your Company concluded the acquisition of Columbia Natural Gas Limited by way of the purchase of all of its shares for \$5 million from Norcen Pipelines Limited, a subsidiary of Norcen Energy Resources Limited. Columbia distributes natural gas in a number of cities and adjacent communities in the East Kootenay area of the Province of British Columbia. The population in the service area is approximately 60,000. The Company presently provides service to some 10,000 customers including a number of large industrial accounts such as the Cominco Ltd. mining operation at Kimberley, the Crestbrook Pulp and Paper Ltd. mill near Skookumchuk, the Crows Nest Industries Ltd. lumber drying operation and the coal operations of Kaiser Resources Ltd. and Fording Coal Limited.

Columbia's gas supply is obtained from the transmission line of Alberta Natural Gas by way of contracts with Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Quantities of gas have also been supplied during the past two years by Inland.

There is great potential in the Columbia service area for additional industrial and related residential and commercial development and Inland feels confident that this Company will have a significant beneficial effect on consolidated net income in future years.

St. John Gas & Oil Co. Ltd. (N.P.L.)

This subsidiary holds minor interests in natural gas and oil leases in northeast British Columbia and participates in the production of natural gas and oil from these leases. Net income for this year amounted to \$15,000.

Grande Prairie Transmission Co. Ltd.

The Company is incorporated under the laws of the Province of Alberta and is subject to regulation by the Public Utilities Board of Alberta. The Company purchases natural gas from producers at various fields north of Grande Prairie in the Peace River area of Alberta and transmits the gas for resale by Northwestern Utilities Limited to the City of Grande Prairie and other communities in the immediate area. Gas sales volume for the year under review was 2,675,176 Mcf which was up from the previous year's sales volume of 2,425,618 Mcf. A new peak day average of 15,647 Mcf was set during the winter. Drilling in the general area of Grande Prairie continues to be active and several wells adjacent to our pipeline appear to have potential for our use.

The Company's net income declined to \$11,000 from \$47,000 in the previous year. The major reason for this decline was a substantial increase in interest rates applicable to the Company's short-term borrowings.

Peace River Transmission Company Limited

The Company is an Inter-Provincial pipeline company and is subject to regulation by the National Energy Board. It purchases natural gas from Westcoast Transmission Company Limited and delivers it to a gate station in the City of Dawson Creek where it is sold to Northland Utilities (B.C.) Limited for distribution in Dawson Creek, Pouce Coupe, Rolla and the surrounding area.

Natural gas sales volume for the current year was 1,223,828 Mcf compared to 1,235,940 Mcf in the previous year. The small decrease in sales volume can be attributed to an alfalfa drying plant being closed down, but the

loss of this revenue could be offset this year by the addition of a grain elevator load which should come into full production when this year's harvest is completed.

The peak day average increased moderately from 7,717 Mcf in the previous year to 8,416 Mcf this year.

Net income for the year was \$35,393, slightly down from the previous year.

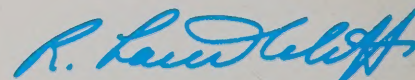
Inland Development Co. Ltd.

This subsidiary owns certain industrial and commercial properties in the Inland service area. The Company, as part of a joint venture arrangement, has recently filed an application for rezoning and an application for approval of an industrial subdivision plan with the City of Kelowna. These applications pertain to a proposed industrial park encompassing approximately 60 acres in the vicinity of Winfield within the municipal boundaries of the City of Kelowna.

TO OUR EMPLOYEES

Improved financial performance is a reflection of many factors, not the least of which is the continued contribution of our dedicated employees. On behalf of the Board we wish to sincerely thank them for their continued efforts and support.

For the Board of Directors



Chairman of the Board
September 24, 1979

Consolidated Statement of Income

For the year ended June 30

	1979	1978
REVENUE		
Sale of gas	\$85,987,424	\$69,401,952
Transportation revenue	70,876	879,070
Other operating revenue	533,221	455,294
	<u>86,591,521</u>	<u>70,736,316</u>
EXPENSES		
Purchase of gas	54,113,385	43,954,669
Operation and maintenance (Notes 1 and 5)	8,783,838	6,143,352
Property, franchise and other taxes	4,318,613	3,127,500
Depreciation	2,910,293	2,749,321
Interest and expense on long-term debt	4,815,380	4,473,709
Other interest	246,405	479,525
Interest charged to construction	(15,449)	(81,913)
	<u>75,172,465</u>	<u>60,846,163</u>
Income before income taxes	<u>11,419,056</u>	<u>9,890,153</u>
Income taxes		
Current	4,110,418	3,120,380
Deferred	1,593,330	1,829,733
	<u>5,703,748</u>	<u>4,950,113</u>
NET INCOME	<u>\$ 5,715,308</u>	<u>\$ 4,940,040</u>
EARNINGS PER COMMON SHARE , after provision		
for preference dividends	<u>\$ 1.53</u>	<u>\$ 1.25</u>

Consolidated Statement of Retained Earnings

For the year ended June 30

	1979	1978
BALANCE AT BEGINNING OF YEAR	\$17,878,790	\$16,628,268
Net income	<u>5,715,308</u>	<u>4,940,040</u>
	<u>23,594,098</u>	<u>21,568,308</u>
Dividends on 5% preference shares	400,000	400,000
Dividends on 10% second preference shares	1,000,000	1,000,000
Dividends on common shares — 82½¢ per share in 1979; 80¢ in 1978	2,328,251	2,257,698
Amortization of preference share issue costs	31,789	31,820
	<u>3,760,040</u>	<u>3,689,518</u>
BALANCE AT END OF YEAR	<u>\$19,834,058</u>	<u>\$17,878,790</u>

See accompanying summary of accounting policies and notes.

ASSETS

CURRENT ASSETS

	1979	1978
Cash	\$ 28,877	\$ 137,650
Accounts receivable	7,323,470	5,510,229
Materials and supplies, at cost	1,940,354	1,854,844
Prepaid expenses	263,055	451,029
	<u>9,555,756</u>	<u>7,953,752</u>

NON-CURRENT ASSETS

Mortgages and other long-term receivables	171,170	136,636
Marketable securities, at cost	154,000	124,000
Real estate held for resale, at cost	931,188	886,319
	<u>1,256,358</u>	<u>1,146,955</u>

PROPERTY, PLANT AND EQUIPMENT, at cost

Natural gas transmission lines and distribution systems	113,381,039	109,188,782
Plant, buildings and equipment	6,711,315	6,246,663
Land and land rights	2,528,829	2,116,932
Construction work in process	512,940	387,885
	<u>123,134,123</u>	<u>117,940,262</u>
Accumulated depreciation	22,075,126	19,795,479
	<u>101,058,997</u>	<u>98,144,783</u>
Interest in petroleum and natural gas properties	180,228	175,907
Accumulated depletion	64,993	64,233
	<u>115,235</u>	<u>111,674</u>
	<u>101,174,232</u>	<u>98,256,457</u>

DEFERRED CHARGES UNAMORTIZED

Preference share issue costs	1,343,719	1,358,640
Long-term debt issue costs	840,173	958,297
Rate hearing costs	271,566	234,132
Depreciation	862,655	1,150,206
	<u>3,318,113</u>	<u>3,701,275</u>
	<u>\$115,304,459</u>	<u>\$111,058,439</u>

See accompanying summary of accounting policies and notes.

Balance Sheet

June 30

LIABILITIES

CURRENT LIABILITIES

	1979	1978
Accounts payable	\$ 5,957,400	\$ 4,412,603
Dividends payable	350,000	350,000
Income taxes	1,029,418	1,489,676
Property, franchise and other taxes accrued	4,347,753	3,162,583
Interest accrued on long-term debt	485,838	503,164
Current portion of long-term debt	668,589	603,461
	<u>12,838,998</u>	<u>10,521,487</u>
LONG-TERM DEBT (Note 2)	52,903,000	54,523,089
DEFERRED INCOME TAXES	<u>3,423,063</u>	<u>1,829,733</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 3)

5% Cumulative redeemable preference shares, par value \$20 per share Authorized and issued: 400,000 shares	8,000,000	8,000,000
10% Cumulative redeemable second preference shares, par value \$25 per share Authorized and issued: 400,000 shares	10,000,000	10,000,000
Common shares, par value \$1 per share Authorized: 5,000,000 shares Issued: 2,822,122 shares	2,822,122	2,822,122
PREMIUM ON COMMON SHARES	5,483,218	5,483,218
RETAINED EARNINGS (Note 4)	19,834,058	17,878,790
	<u>46,139,398</u>	<u>44,184,130</u>
	<u>\$115,304,459</u>	<u>\$111,058,439</u>

Approved on behalf of the Board

 Director

 Director

Consolidated Statement of Changes in Financial Position

For the year ended June 30

SOURCE OF WORKING CAPITAL

	1979	1978
Operations		
Net income	\$ 5,715,308	\$ 4,940,040
Items not involving working capital		
Depreciation and amortization	3,080,534	2,936,078
Deferred income taxes	1,593,330	1,829,733
Other	(113,814)	—
Total from operations	10,275,358	9,705,851
Long-term debt issued	—	12,000,000
	<u>10,275,358</u>	<u>21,705,851</u>

APPLICATION OF WORKING CAPITAL

Additions to property, plant and equipment	5,540,517	5,904,741
Dividends on preference and common shares	3,728,251	3,657,698
Reduction of long-term debt	1,505,140	1,353,675
Long-term debt issue costs	—	334,549
Rate hearing costs	168,217	110,539
Other — net	48,740	81,338
	<u>10,990,865</u>	<u>11,442,540</u>

DECREASE (INCREASE) IN WORKING CAPITAL POSITION	715,507	(10,263,311)
Working capital deficit at beginning of year	<u>2,567,735</u>	<u>12,831,046</u>

WORKING CAPITAL DEFICIT AT END OF YEAR	<u>\$ 3,283,242</u>	<u>\$ 2,567,735</u>
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See accompanying summary of accounting policies and notes.

AUDITORS' REPORT

To the Shareholders
Inland Natural Gas Co. Ltd.

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. as at June 30, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change, with which we concur, in the allocation of overhead costs as described in Note 1, have been applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.
Chartered Accountants

Vancouver, B.C.
August 23, 1979

Summary of Accounting Policies

The Company and its transmission subsidiaries are regulated utilities and their accounting records and practices conform to the requirements of their respective regulatory authority. Significant accounting policies are set out below:

Principles of Consolidation

The consolidated financial statements include the accounts of Inland Natural Gas Co. Ltd. and its subsidiaries Peace River Transmission Company Limited, Grande Prairie Transmission Co. Ltd., Inland Development Co. Ltd., St. John Gas & Oil Co. Ltd. (N.P.L.), Inland Transmission Co. Ltd. and Inland Development (1957) Co. Ltd., all of which are wholly-owned.

Property, Plant and Equipment

The cost of utility plant additions, major renewals and betterments, including direct costs, general and administrative costs allocable to construction and interest on funds used during construction are capitalized. The cost of depreciable utility plant retired together with removal costs less salvage is charged to accumulated depreciation. Maintenance and repair costs of a routine nature are charged to expense as incurred.

Depreciation

The Company provides for depreciation on a straight-line basis on plant in service at the beginning of the year at rates prescribed by the British Columbia Energy Commission (the "Commission") for each class of plant. The application of these rates for the current year is equivalent to a composite rate of 2.34%. Annual rates used for major plant classifications are:

Transmission and distribution mains	2%
Meters, compressors, buildings, measuring and regulating equipment	3%
General equipment	5% to 15%

Depreciation not provided by the Company during the period 1958 to 1963, is being amortized and recovered concurrently in rates charged to customers over five years to 1982 in annual amounts of \$287,551, as directed by the Commission.

Deferred Charges

5% Preference share issue costs are amortized to retained earnings at the prescribed annual rate of 1%.

10% Second preference share issue costs are amortized to retained earnings over a 21 year period commencing July 1, 1976.

Long-term debt issue costs are amortized over the original lives of the related debt. Gains on purchase of debt securities for sinking funds are amortized over the remaining lives of the related debt as a reduction of debt charges.

Rate hearing costs are amortized over periods as directed by the Commission. Annual amortizations will be: \$77,472 to 1981, \$25,955 to 1984 and \$12,919 to 1987.

Income Taxes

Commencing July 1, 1977, the Commission directed the Company, for ratemaking and accounting purposes, to follow the tax allocation method of recording income taxes. Under this method, deferred income taxes are recorded to the extent that income taxes, otherwise payable, are deferred by claiming capital cost allowances and other deductions for tax purposes in excess of the related amounts recorded as expense in the accounts.

Prior to that date, the Company followed the taxes payable method of recording income taxes for both ratemaking and accounting purposes. Accordingly, the Company has not recorded in its accounts nor recovered in its rates accumulated deferred income taxes in the amount of \$16,466,917. It is expected that any future increased tax expense resulting from this previous policy will be allowed in future rate determinations.

Earnings Per Common Share

Earnings per common share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. Dividend requirements on preference shares of \$1,400,000 in 1979 and 1978 are deducted from net income for purposes of these calculations.

Notes to Consolidated Financial Statements

1. Change in Accounting Practices

By Order dated December 1, 1978, the British Columbia Energy Commission (the "Commission") directed the Company, upon the acceptance for filing of new rate schedules, to implement the accounting change with respect to the allocation of overhead costs to construction approved by the Commission in its Decision dated August 31, 1977. New rate schedules were filed by the Company and accepted by the Commission effective December 1, 1978.

The effect of this accounting change is to increase operating expenses and decrease construction costs. As the additional operating expenses are recovered in rates charged to customers, there is no significant effect on the Company's net income.

2. Long-Term Debt

	Total Outstanding	Current Liability	Long-Term	
			1979	1978
Inland Natural Gas Co. Ltd.				
First mortgage sinking fund bonds				
6¼% Series C, due May 1, 1983	\$11,851,500	\$ 75,500	\$11,776,000	\$12,586,000
8% Series D, due December 31, 1989	4,339,000	127,000	4,212,000	4,339,000
8¼% Series E, due November 1, 1991	6,798,000	8,000	6,790,000	6,955,000
8¾% Series F, due April 15, 1993	7,100,000	145,000	6,955,000	7,110,000
11½% Series G, due June 15, 1995	11,395,000	225,000	11,170,000	11,445,000
	41,483,500	580,500	40,903,000	42,435,000
Sinking fund debentures				
9¾% Series A, due November 30, 1997	12,000,000	—	12,000,000	12,000,000
Inland Development Co. Ltd.				
9% mortgage, due January 1, 1980	88,089	88,089	—	88,089
	<u>\$53,571,589</u>	<u>\$668,589</u>	<u>\$52,903,000</u>	<u>\$54,523,089</u>

The first mortgage bonds are secured by a Trust Deed which constitutes in favour of the Trustee a first, fixed and specific mortgage and charge of and upon certain property of the Company and a first floating charge on the undertaking and all other property and assets, present and future of the Company, in the manner and to the extent set forth in the Trust Deed.

The Series A debentures are unsecured obligations of the Company but are subject to the restrictions of the Trust Indenture dated November 1, 1977.

The trust agreements relating to the bonds and debentures require the Company to establish sinking funds to retire various amounts of each issue prior to maturity. The annual requirements to date have been fulfilled by retirement of the stipulated amount of such securities. Sinking fund requirements and debt maturities over the next five years, after giving effect to purchases and retirements as at June 30, 1979, are: 1980, \$580,500; 1981, \$1,838,000; 1982, \$1,958,000; 1983, \$11,115,000; 1984, \$1,318,000.

3. Capital Stock

(a) 5% Cumulative redeemable preference shares

The 5% preference shares are redeemable at the option of the Company on thirty days' notice at a price of \$21 per share.

(b) 10% Cumulative redeemable second preference shares

The 10% second preference shares are not redeemable before July 1, 1981 but will be redeemable thereafter at the option of the Company at a price of \$26.25 per share if redeemed on or before June 30, 1982, and at prices reducing annually to \$25 per share if redeemed after June 30, 1986.

The Company is required, in each calendar quarter, to purchase for cancellation 5,000 10% second preference shares in the open market at prices not exceeding \$25 per share. If, in any quarter, the Company is unable so to purchase 5,000 shares, its purchase obligations carry over to succeeding quarters for a total of 20,000 shares during each 12 month period ending June 30, after which date the Company has no further obligations to purchase shares for that period. During the year ended June 30, 1979, the market price exceeded \$25 per share and, accordingly, the Company did not purchase any shares.

(c) The Series D bonds were issued with share purchase warrants which entitled holders to purchase common shares of the Company on or before June 15, 1979 at an adjusted exercise price of \$16.83. None of the share purchase warrants were exercised prior to the date of expiry.

4. Retained Earnings

The Trust Deed relating to the first mortgage sinking fund bonds contains certain restrictions upon the amount that may be paid as dividends. At June 30, 1979 all of the Company's retained earnings were free from limitation of such restrictions.

5. Pension Plans

The Company and its subsidiaries have contributory pension plans for their employees. These plans require that actuarial studies be prepared every three years. The most recent actuarial studies were prepared as at January 1, 1979 for the plan for salaried employees and as at April 1, 1979 for the plan for other employees.

As a result of experience deficiencies, amendments to benefits and changes in the valuation methods and assumptions used by the actuaries, the valuation report as at January 1, 1979 indicated an unfunded liability for past service benefits of \$672,000. During the year, the Company has funded and charged in its accounts approximately \$400,000 relating to this liability. The unfunded liability as at June 30, 1979 is \$350,000. Based on actuarial advice, this amount together with interest will be funded and charged in the accounts over the future working lifetimes of the present members of the plan (approximately 15 years) at 1.1% of related payroll. There was no unfunded liability with respect to the plan for other employees.

Current service costs of the pension plans are funded as accrued based on actuarial determinations. The total current and past service pension costs funded and charged in the accounts were \$607,000 in 1979 and \$172,000 in 1978 of which \$111,000 and \$71,000 respectively have been capitalized (see Note 1).

6. Remuneration of Directors and Senior Officers

The aggregate remuneration paid by the Company to directors and senior officers (including the five highest paid employees), for the year ended June 30, 1979 was \$346,977 (1978 – \$323,478).

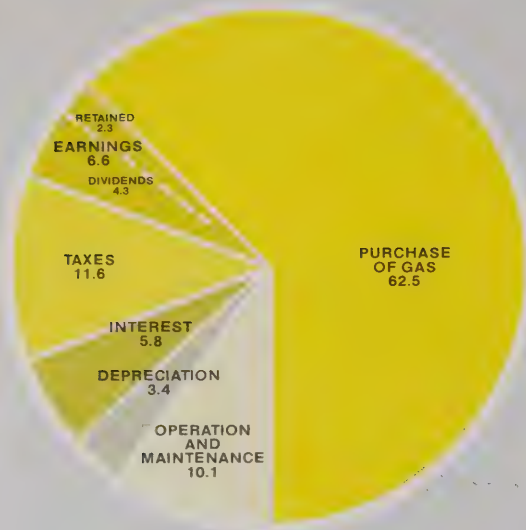
7. Capital Expenditures

Capital expenditures for the 1980 fiscal year are estimated at \$7,500,000. Cash requirements will be provided by established corporate lines of credit together with cash from operations pending future financing.

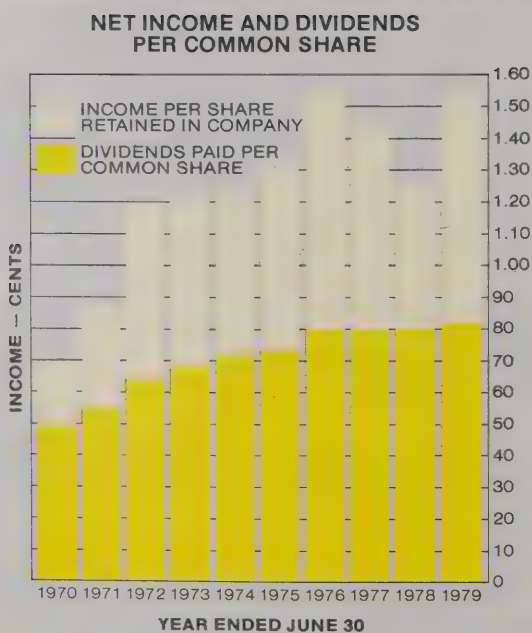
8. Events Subsequent to June 30, 1979

On July 9, 1979, the Company purchased all of the issued common shares of Columbia Natural Gas Limited for a cash consideration of \$5,000,000.

Comparative Statement of



DISTRIBUTION OF REVENUE
YEAR ENDED JUNE 30, 1979



**NET INCOME AND DIVIDENDS
PER COMMON SHARE**

REVENUE

	1979
Sale of gas	\$82,043,32
Transportation revenue	70,87
Other income	465,01
	<u>82,579,21</u>

EXPENSES

Purchase of gas	50,816,59
Operation and maintenance	8,551,22
Property and other taxes	2,098,18
Franchise fees	2,177,97
Depreciation	2,833,68
Interest on borrowed money	5,093,36
Amortization of long-term debt issue costs	39,45
Interest charged to construction (credit)	(15,44)
	<u>71,595,03</u>

INCOME BEFORE INCOME TAXES	10,984,18
Income taxes — current	4,050,47
— deferred	1,593,33
	<u>5,643,74</u>

NET INCOME	5,340,43
Income from subsidiary companies (net)	374,87
NET CONSOLIDATED INCOME	<u>\$ 5,715,30</u>

DIVIDENDS

Preference shares	\$ 1,400,00
Common shares	2,328,25
Total dividends	<u>\$ 3,728,25</u>
NUMBER OF COMMON SHARES av.	2,822,12

EARNINGS PER COMMON SHARE

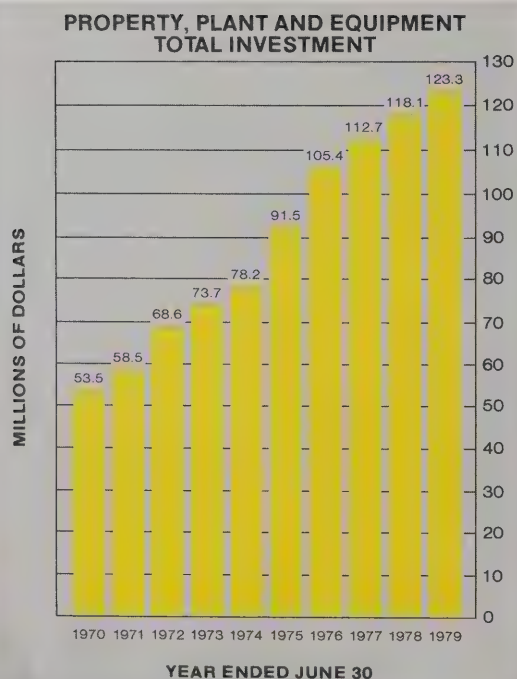
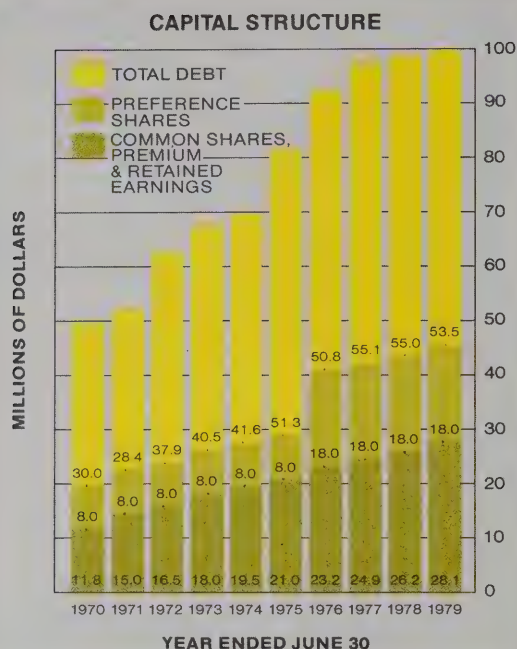
(after provision for preference dividends)	\$ 1.5
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DIVIDENDS PER COMMON SHARE	\$.82
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Consolidated Income and Dividends

1978	1977	1976	1975	1974	1973	1972	1971	1970
5,980,460	49,324,042	35,786,016	32,414,184	27,272,202	22,664,204	18,269,877	15,544,855	14,146,424
879,070	825,950	296,700	296,700	296,700	288,880	260,023	234,030	229,032
450,159	429,984	445,086	328,971	488,703	352,712	331,191	242,211	219,627
7,309,689	50,579,976	36,527,802	33,039,855	28,057,605	23,305,796	18,861,091	16,021,096	14,595,083
1,164,288	29,515,461	19,423,365	18,663,501	14,155,016	10,403,343	8,117,278	6,949,267	6,650,914
5,924,602	5,013,262	4,042,170	3,197,242	2,723,477	2,382,680	2,015,214	1,713,627	1,655,258
1,482,429	1,271,164	1,153,879	920,547	791,251	650,950	541,075	475,903	430,785
1,606,534	1,253,327	922,528	839,649	649,628	455,525	381,973	333,279	258,094
2,673,205	2,240,407	1,732,656	1,661,278	1,554,102	1,447,087	1,192,131	1,154,571	1,037,895
4,941,831	4,505,881	4,982,241	3,678,765	3,019,393	2,662,467	2,331,595	1,956,895	1,948,695
55,972	33,252	54,665	47,009	60,190	63,323	67,179	67,157	74,994
(81,913)	(30,682)	(563,583)	(529,712)	(15,240)	(38,663)	(264,894)	(24,228)	(18,806)
7,766,948	43,802,072	31,747,921	28,478,279	22,937,817	18,026,712	14,381,551	12,626,471	12,037,829
9,542,741	6,777,904	4,779,881	4,561,576	5,119,788	5,279,084	4,479,540	3,394,625	2,557,254
3,092,259	1,615,707	212,678	703,700	1,446,269	1,495,561	994,769	956,362	594,511
1,829,733	—	—	—	—	—	—	—	—
4,921,992	1,615,707	212,678	703,700	1,446,269	1,495,561	994,769	956,362	594,511
4,620,749	5,162,197	4,567,203	3,857,876	3,673,519	3,783,523	3,484,771	2,438,263	1,962,743
319,291	334,844	238,714	236,357	216,009	99,708	281,130	207,694	179,306
4,940,040	5,497,041	4,805,917	4,094,233	3,889,528	3,883,231	3,765,901	2,645,957	2,142,049
1,400,000	1,444,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
2,257,698	2,257,698	2,257,698	2,088,370	2,031,928	1,947,264	1,777,937	1,414,514	1,285,921
3,657,698	3,701,698	2,657,698	2,488,370	2,431,928	2,347,264	2,177,937	1,814,514	1,685,921
2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,822,122	2,578,100	2,571,843
1.25	1.44	1.56	1.31	1.24	1.23	1.19	.87	.68
.80	.80	.80	.74	.72	.69	.63	.55	.50

1979



MILES OF COMPANY OWNED LINES

Transmission	91
Distribution	1,35
Services	1,05
Transmission-subsidaries	12

UTILITY PLANT (\$000)

Transmission	\$ 59,56
Distribution	55,07
Stand-by	88
General	3,80
Construction work in process	50
Total utility plant	119,83

SUBSIDIARIES' PLANT

3,48
123,31

ACCUMULATED DEPRECIATION

Inland Natural Gas Co. Ltd.	19,95
Subsidiary companies (including depletion)	1,31
	21,27

NET CONSOLIDATED PLANT

\$102,03

CAPITALIZATION (\$000)

First mortgage bonds	\$ 41,48
Debentures	12,00
Short-term notes and bank loan (net)	—
Total debt	53,48
Preference shares	18,00
Common shares	2,82
Premium on common shares	5,48
Retained earnings	19,83
	\$ 99,62

PERCENT OF TOTAL CAPITALIZATION

First mortgage bonds	41.
Debentures	12.
Short-term notes and bank loan (net)	—
Total percent of debt	53.
Preference shares	18.
Common shares	2.
Premium on common shares	5.
Retained earnings	19.
	100.

RATIOS

First mortgage bond interest—times earned	4.5
Total debt interest—times earned	3.2
Preference dividends—times earned	4.0

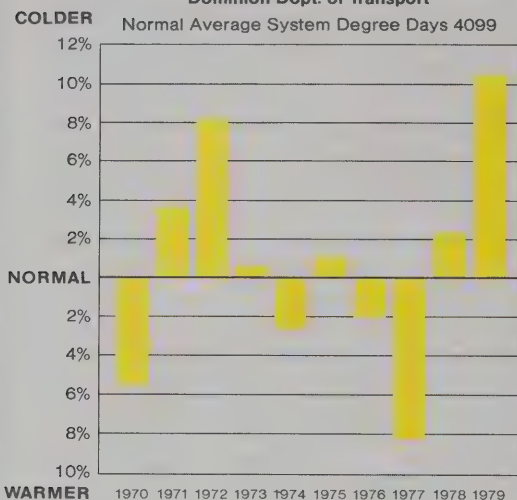
Sheet Information

1978	1977	1976	1975	1974	1973	1972	1971	1970
907	903	889	816	781	777	769	624	603
1,304	1,270	1,211	1,141	1,082	1,000	898	831	778
1,020	985	937	871	814	740	671	614	569
122	122	122	122	116	116	115	115	115
58,957	55,996	53,981	34,839	34,047	33,190	31,680	22,552	22,330
50,977	47,774	43,613	39,322	36,374	33,000	29,558	26,820	25,420
881	881	882	882	882	883	913	364	364
3,467	2,852	2,728	2,671	2,601	2,537	2,528	2,597	2,605
388	1,860	461	10,095	739	618	591	3,499	134
114,670	109,363	101,665	87,809	74,643	70,228	65,270	55,832	50,853
3,446	3,376	3,713	3,711	3,517	3,470	3,343	2,708	2,688
118,116	112,739	105,378	91,520	78,160	73,698	68,613	58,540	53,541
17,465	15,317	13,494	12,106	10,594	9,267	8,225	7,277	6,615
1,244	1,171	1,148	1,066	989	912	844	788	733
18,709	16,488	14,642	13,172	11,583	10,179	9,069	8,065	7,348
99,407	96,251	90,736	78,348	66,577	63,519	59,544	50,475	46,193
42,965	44,347	45,498	46,277	35,137	35,810	28,960	21,943	22,567
12,000	—	4,151	4,151	4,384	4,623	4,879	5,110	5,360
—	10,715	1,187	863	2,116	76	4,071	1,300	2,031
54,965	55,062	50,836	51,291	41,637	40,509	37,910	28,353	29,958
18,000	18,000	18,000	8,000	8,000	8,000	8,000	8,000	8,000
2,822	2,822	2,822	2,822	2,822	2,822	2,822	2,822	2,572
5,483	5,483	5,483	5,483	5,483	5,483	5,483	5,483	3,231
17,879	16,628	14,865	12,729	11,136	9,691	8,168	6,758	6,013
99,149	97,995	92,006	80,325	69,078	66,505	62,383	51,416	49,774
43.3	45.3	49.4	57.6	50.8	53.8	46.4	42.7	45.3
12.1	—	4.5	5.2	6.3	7.0	7.8	9.9	10.8
—	10.9	1.3	1.1	3.2	.1	6.5	2.5	4.1
55.4	56.2	55.2	63.9	60.3	60.9	60.7	55.1	60.2
18.2	18.3	19.6	10.0	11.6	12.0	12.8	15.5	16.1
2.9	2.9	3.1	3.5	4.1	4.2	4.5	5.5	5.1
5.5	5.6	5.9	6.8	7.9	8.3	8.8	10.7	6.5
18.0	17.0	16.2	15.8	16.1	14.6	13.2	13.2	12.1
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4.01	3.09	2.62	3.30	3.22	3.80	3.89	3.81	3.09
3.03	3.60	2.02	2.32	2.78	3.04	3.09	2.91	2.48
3.53	3.81	12.01	10.24	9.72	9.71	9.41	6.62	5.36

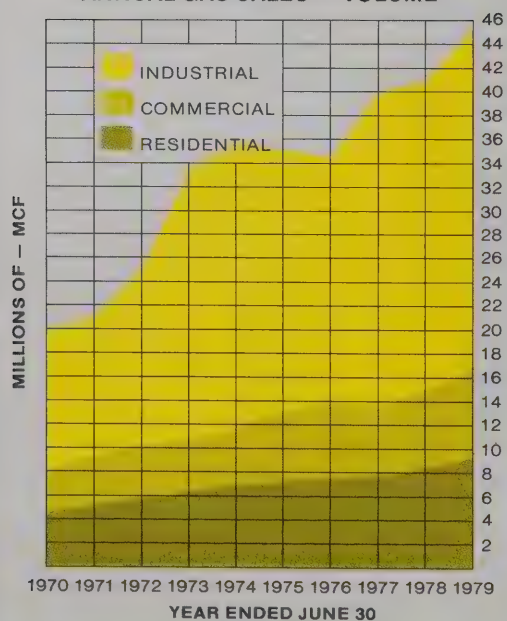
Comparative Statement of Sales

AREA TEMPERATURES

BASED ON 30 YEAR AVERAGE
Climatology Division, Meteorological Branch
Dominion Dept. of Transport



ANNUAL GAS SALES — VOLUME



REVENUE (\$000)

	1979
Residential	\$ 20,022
Commercial	17,021
Small industrial	12,024
Large industrial and other	32,976
Total natural gas revenue	<u>\$ 82,043</u>

SALES VOLUME (MMcf)

Residential	8,853
Commercial	7,758
Small industrial	6,438
Large industrial and other	22,603
Total natural gas sales volume	<u>45,652</u>

CUSTOMERS AT YEAR END

Residential	67,358
Commercial	9,385
Small industrial	105
Customers at year end	<u>76,848</u>

CUSTOMER STATISTICS

Average use per customer (Mcf)	
Residential	133
Commercial	847
Average rate per Mcf	
Residential	\$ 2.26
Commercial	2.19

COST OF NATURAL GAS

PURCHASED (\$000)	\$ 50,817
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VOLUME OF NATURAL GAS

PURCHASED (MMcf)	45,125
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MAXIMUM DAY SENDOUT (Mcf)

Including interruptible	229,986
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DEGREE DAYS (base 18° C.)	4,524
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PAYROLL STATISTICS

Wages and benefits (\$000)	\$ 7,397
Number of employees (average)	278

*excluding subsidiary companies

Purchases and Other Statistics*

1978	1977	1976	1975	1974	1973	1972	1971	1970
16,253	12,465	10,561	9,531	7,633	6,406	6,224	5,477	4,738
13,286	9,869	8,318	7,567	5,759	4,593	4,375	4,226	3,566
10,113	7,772	5,053	3,787	3,509	3,158	2,426	1,452	1,272
<u>26,328</u>	<u>19,218</u>	<u>11,854</u>	<u>11,529</u>	<u>10,371</u>	<u>8,507</u>	<u>5,245</u>	<u>4,390</u>	<u>4,570</u>
<u>65,980</u>	<u>49,324</u>	<u>35,786</u>	<u>32,414</u>	<u>27,272</u>	<u>22,664</u>	<u>18,270</u>	<u>15,545</u>	<u>14,146</u>
8,170	7,445	7,522	7,173	6,527	6,020	5,604	4,794	4,083
6,914	6,199	6,221	5,959	5,207	4,753	4,510	4,366	3,630
6,294	5,938	4,723	3,847	4,081	4,188	3,415	2,124	1,892
<u>21,322</u>	<u>20,594</u>	<u>16,156</u>	<u>18,516</u>	<u>19,721</u>	<u>18,700</u>	<u>11,311</u>	<u>9,635</u>	<u>10,394</u>
<u>42,700</u>	<u>40,176</u>	<u>34,622</u>	<u>35,495</u>	<u>35,536</u>	<u>33,661</u>	<u>24,840</u>	<u>20,919</u>	<u>19,999</u>
65,206	62,763	59,300	54,910	51,027	45,870	41,094	36,972	34,174
8,942	8,580	8,034	7,481	6,955	6,362	5,800	5,360	5,121
104	108	100	90	86	90	98	62	51
<u>74,252</u>	<u>71,451</u>	<u>67,434</u>	<u>62,481</u>	<u>58,068</u>	<u>52,322</u>	<u>46,992</u>	<u>42,394</u>	<u>39,346</u>
128	122	132	135	135	138	144	135	125
789	746	802	826	782	782	808	833	744
1.99	1.67	1.40	1.33	1.17	1.06	1.11	1.14	1.16
1.92	1.59	1.34	1.27	1.11	0.97	0.97	0.97	0.98
41,164	29,515	19,423	18,664	14,155	10,403	8,117	6,949	6,651
42,134	39,763	34,247	35,111	35,169	33,120	24,430	20,858	20,040
04,292	169,224	157,966	148,233	136,485	127,926	105,869	92,848	90,839
4,191	3,763	4,018	4,140	4,002	4,130	4,443	4,257	3,865
6,248	5,996	4,887	3,831	3,142	2,625	2,328	1,889	1,809
262	271	249	240	224	213	205	188	195

YEAR
SERVICE
COMMENCED

1958	Chetwynd
	Prince George
1960	Shelley
1961	Oyama
1962	Lac La Hache
1964	Savona
	Winfield
	Okanagan Falls
1965	Hudson Hope
	Robson
1967	Mackenzie

1969	Clinton Lumby
1971	Logan Lake Cache Creek Ashcroft
1972	Keremeos
1974	Hedley
1975	Salmo Fruitvale Montrose

YEAR
SERVICE
COMMENCED

1962	Creston
	Cranbrook
	Kimberley
	Fernie
1969	Sparwood
1971	Elkford
1972	Yahk

Pictured here is an artist's rendering of renovations planned for a historical building which your company owns in Nelson, B.C. The solid stone structure was built in 1900 by the Nelson Gas and Coke Company and acquired by Inland in 1956 as part of an existing gas distribution system formerly owned by the City of Nelson. Inland will locate its Nelson business office in the building when restoration is complete.



Corporate Data

DIRECTORS

Robert G. Brodie	President, Merit Oil Co. Ltd.
+*Ronald L. Cliff	Chairman of the Board, Inland Natural Gas Co. Ltd.
Roderick M. Hungerford	President, Flex-Lox Industries Ltd.
+*J. Norman Hyland	President, Granduc Mines Ltd.
+ Robert E. Kadlec	President, Inland Natural Gas Co. Ltd.
Thomas G. Rust	President and Chief Executive Officer, Crown Zellerbach Canada Limited
*Horace B. Simpson	Vice-President, Okanagan Holdings Ltd.
+ Richard B. Stokes	Executive Vice-President and Chief Financial Officer, Inland Natural Gas Co. Ltd.
*H. Richard Whittall	Partner, Richardson Securities of Canada

+ Member of the Executive Committee.

* Member of the Audit Committee.

All Directors reside in British Columbia.

OFFICERS

Ronald L. Cliff	Chairman of the Board
Robert E. Kadlec	President
Richard B. Stokes	Executive Vice-President and Chief Financial Officer
Geoffrey M.O. Solly	Vice-President, Operations
Clifford I. Kleven	Vice-President, Treasurer and Controller
Ardelle F. Clark	Secretary

HEAD OFFICE

1066 West Hastings Street, Vancouver, B.C. V6E 3G3

REGISTRAR

Canada Permanent Trust Company, Vancouver, B.C.

TRANSFER AGENT

Canada Permanent Trust Company,
Vancouver — Calgary — Toronto — Montreal — Halifax

AUDITORS

Thorne Riddell & Co.

CONSOLIDATED COMPANIES

Inland Natural Gas Co. Ltd.
Wholly-owned Subsidiaries
Peace River Transmission
Company Limited
Grande Prairie Transmission Co. Ltd.
Inland Development Co. Ltd.
St. John Gas & Oil Co. Ltd. (N.P.L.)
Inland Transmission Co. Ltd.
Inland Development (1957) Co. Ltd.
*Columbia Natural Gas Limited

* Acquired in July, 1979.

ACT OF INCORPORATION

Province of British Columbia Companies Act

Special Act of the Parliament of Canada

Province of Alberta Companies Act

Province of British Columbia Companies Act

Province of British Columbia Companies Act

Province of British Columbia Companies Act

Province of British Columbia Companies Act

Province of British Columbia Companies Act

Duplicate Annual Reports

Some holders of Inland securities receive more than one copy of our annual report and other material mailed to shareholders. We make an effort to eliminate duplications of such mailings, however, if securities are registered in different names or addresses, multiple copies will be received. Those security holders receiving more than one copy of material should contact Canada Permanent Trust Company to either consolidate the holdings under one name if they are with respect to the same security, or in the event that they hold more than one security advise the registrar that no material is required.

INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA





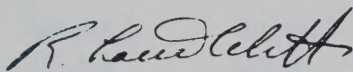
parts of the Province". In addition, he said, "Proposals for construction of a natural gas pipeline to Vancouver Island have been made and are now under review".

Now that Government policy on supplying natural gas to the Island has been disclosed, Inland will begin the necessary marketing and engineering studies to make application for permission to distribute natural gas to communities on the Island.

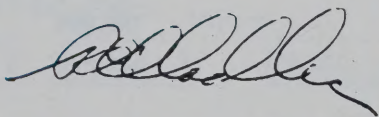
Inland is confident that its past experience in serving similar communities in the Interior, together with its expertise in the conversion market, provides the Company with a significant advantage in its application.

Your Company is encouraged by the fact that natural gas will play an increasingly important role in the Province and that the Province will, to quote the Minister of Energy, "capitalize on the opportunities for industrial development which British Columbia's extensive resource base provides".

For the Board of Directors



Chairman of the Board



President

*Vancouver, B.C.
February 5, 1980*

AR12

INLAND
NATURAL GAS CO. LTD.

**INTERIM
REPORT**

DECEMBER 31, 1979

INLAND NATURAL GAS CO. LTD.

CONSOLIDATED STATEMENT OF INCOME

	Six Months Ended			
	December 31, 1979			December 31,
REVENUE	Inland	Columbia	Total	1978
Sale of gas	\$40,511,016	\$ 7,046,928	\$44,605,446 ⁽¹⁾	\$38,874,812
Transportation revenue . . .	8,365	—	8,365	43,296
Other operating revenue . . .	216,462	28,973	245,435	211,115
	<u>40,735,843</u>	<u>7,075,901</u>	<u>44,859,246</u>	<u>39,129,223</u>
EXPENSES				
Purchase of gas	25,257,224	5,625,581	27,930,307 ⁽¹⁾	25,241,303
Operation, maintenance and administrative	4,487,860	501,598	4,989,458	3,448,778
Property, franchise and other taxes	2,299,983	208,196	2,508,179	1,779,733
Depreciation	1,520,202	116,814	1,637,016	1,448,698
Interest and expense on long-term debt	2,374,416	132,370	2,506,786	2,448,023
Other interest	561,462	265	561,727	162,704
Interest charged to construction	(30,019)	—	(30,019)	(11,197)
	<u>36,471,128</u>	<u>6,584,824</u>	<u>40,103,454</u>	<u>34,518,042</u>
Income before income taxes	<u>4,264,715</u>	<u>491,077</u>	<u>4,755,792</u>	<u>4,611,181</u>
Income taxes				
Current	1,551,112	181,394	1,732,506	1,460,384
Deferred	581,484	53,232	634,716	864,594
	<u>2,132,596</u>	<u>234,626</u>	<u>2,367,222</u>	<u>2,324,978</u>
NET INCOME	<u>2,132,119</u>	<u>256,451</u>	<u>2,388,570</u>	<u>2,286,203</u>
Dividends declared on preference shares	700,000	—	700,000	700,000
	<u>\$ 1,432,119</u>	<u>\$ 256,451</u>	<u>\$ 1,688,570</u>	<u>\$ 1,586,203</u>
EARNINGS PER COMMON SHARE			\$ 0.60	\$ 0.56

⁽¹⁾Excludes Inland sales to Columbia of \$2,952,498

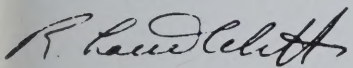
The above statements have been prepared

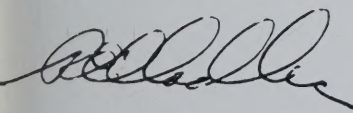
and wholly-owned subsidiary companies

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

	Six Months Ended	
	Dec. 31, 1979	Dec. 31, 1978
SOURCE OF WORKING CAPITAL		
Operations		
Net income for the six months.....	\$ 2,388,570	\$ 2,286,203
Items not involving working capital		
Depreciation and amortization	1,705,102	1,542,141
Deferred income taxes	634,716	864,594
	<u>4,728,388</u>	<u>4,692,938</u>
APPLICATION OF WORKING CAPITAL		
Acquisition of Columbia Natural Gas Limited		
Purchase price.....	5,000,000	—
Other acquisition costs.....	128,482	—
Working capital acquired.....	<u>(118,699)</u>	<u>—</u>
	5,009,783	—
Additions to property, plant and equipment	5,062,387	3,418,021
Dividends on preference and common shares	1,969,955	1,828,849
Reduction of long-term debt	588,626	333,541
Other - net	176,182	209,526
	<u>12,806,933</u>	<u>5,789,937</u>
DECREASE IN WORKING CAPITAL POSITION	8,078,545	1,096,999
Working capital deficit at June 30	<u>3,283,242</u>	<u>2,567,735</u>
WORKING CAPITAL DEFICIT AT		
DECEMBER 31	<u>\$11,361,787</u>	<u>\$ 3,664,734</u>

Approved on behalf of the Board.

 Director

 Director

the books of account and are unaudited.

TO OUR SHAREHOLDERS:

Earnings

Comparative consolidated statements of income and changes in financial position for the six months ended December 31, 1979 are included in this report. On July 9, 1979 Inland purchased all of the shares of Columbia Natural Gas Limited from Norcen Pipelines Limited. The results of Columbia's operations from July 1 to December 31, 1979 are set out separately and reflected in the consolidated financial statements.

Consolidated earnings per common share after providing for dividends on preference shares and including 9¢ per common share resulting from Columbia's operations were 60¢ compared to 56¢ last year.

Dividends

On January 18, 1980 your Board of Directors declared Quarterly Dividend No. 65 in the amount of 22½¢ per common share to shareholders of record at the close of business on February 6, 1980. The dividend is payable on February 15, 1980.

Revenue

Revenue from natural gas sales was somewhat disappointing for the quarter and for the year to date. Weather during the period under review has been approximately 11% warmer than normal and 20% warmer than that experienced in the comparable period a year ago. For this reason, in spite of the addition of over 4,000 residential and commercial customers during the last twelve months, sales to these customer classifica-

tions are well below budget. Sales to industrial customers have also been slightly off due to reduced production by many of our lumber manufacturing customers caused by lack of demand for lumber in both domestic and foreign markets. A labour strike by B.C. Rail also had a detrimental effect on lumber production for certain of our northern customers.

Sales to our largest industrial customers were encouraging, however, as most of our major customers seemed to be operating at or near full capacity.

Expenses

Operation, maintenance and administrative expenses rose by approximately \$1,000,000 in comparison to the same period a year ago. The majority of this increase is attributable to the change in accounting for overhead costs whereby substantial amounts of overhead previously capitalized are now being charged to operating accounts and recovered concurrently in revenue. This change was approved by the B.C. Energy Commission effective December 1, 1978 following the Company's rate hearing.

Other interest expense has increased substantially due to interest on the \$5,000,000 short term borrowings for the purchase of Columbia Natural Gas Limited on July 9, 1979 and to the higher interest rates which have prevailed over recent months.

B.C. Energy Policy

On February 4, 1980, an Energy Policy for the Province of British Columbia was presented by the Minister of Energy. The Minister stated that "Natural gas service should be extended where justified to other